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KORN/FERRY INTERNATIONAL

1984 ANNUAL BOARD OF DIRECTORS STUDY

OF INSURANCE COMPANIES

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KORN/FERRY INTERNATIONAL

1984 Annual Board of Directors Study
of Insurance Companies

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Where appropriate, comparisons are made with all other responding corporations in our study.*

1. Size of Board (Table 2)

The boards of directors of insurance companies have an average of 15 members. This is one less than last year but still more than the average for all respondents (13). Banks and financial institutions continue to have the largest boards, averaging 19.

2. Inside Directors vs. Outside Directors (Table 2)

Insurance boards are composed primarily of outside directors, each averaging 12 outside directors compared to

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* This year, 603 corporations responded to our Annual Study. Industrial and service corporations account for 73 percent of the total of which 215 have revenues in excess of $1 billion. Banks and other financial institutions account for 12 percent, insurance companies for nine percent and retailers for six percent.

only three inside directors, down one from last year. The averages for all respondents is four inside and nine outside directors.

Among insurance respondents, 91 percent believe that more than half their directors should come from outside the company. Of these, 61 percent believe that at least three-quarters should be outside directors, compared with only 37 percent for all respondents.

3. Board Composition (Table 3)

The two major sources of outside directors for insurance company boards are senior executives of other companies, noted by 93 percent, and retired executives of other companies, noted by 82 percent. This suggests that insurance companies, who exceed the overall average in both categories, are continuing to seek outside directors who are not only independent of the company but who have considerable management experience. This is further verified by the fact that 87 percent of the insurers cited corporate experience as the primary consideration in asking a prospective director to sit on their boards -- more than any other responding groups.

Insurers' boards also exceed the overall average in the percentage having women (57 percent vs. 43 percent) and

ethnic minorities (30 percent vs. 26 percent) represented (Table 3A). These two groups are drawn primarily from the ranks of senior executives of other companies, academicians, former government officials and, in the case of minorities, attorneys who do not provide legal services to the company (Table 3B).

Over the past five years, the percentage of insurance companies reporting academicians on their boards has increased from 60 percent to 70 percent -- well above the overall average of 52 percent. They are second only to the very largest industrials ($5 billion and up). The percentage of insurers having commercial bankers on their boards is the highest in the study (59 percent vs. 33 percent overall).

4. Is the Chairman also the CEO?
Is the CEO also the COO?

Seventy-six percent of the insurance company respondents note that their chairman of the board is also their chief executive officer. Forty-eight percent report that their chief executive officer is also their chief operating officer.

5. Committees (Table 4)

The audit, executive and compensation committees continue to be the most prevalent standing committees among the insurance respondents. Insurers lead all other responding groups in the use of the executive (93 percent vs. 80 percent overall), finance (63 percent vs. 34 percent) and corporate ethics (15 percent vs. 6 percent) committees. However, the percentage reporting a benefits committee (15 percent) is the lowest in the study. Fifty-four percent report a nominating committee -- up from 46 percent last year (Table 4A).

The finance committee is again the largest, averaging seven members. This year, however, it is composed of one less inside director (two) than last year. The audit, compensation and nominating committees are composed entirely of outside directors (Table 4B). The finance committee is not only the largest, but it also meets most frequently, averaging eight meetings per year. The nominating committee holds the fewest meeting, averaging only two per year (Table 4C). Only 32 percent of the insurers believe that the amount of time directors devote to committees is increasing, compared to 45 percent of all respondents expressed this belief.

6. Compensation (Table 5)

Ninety-three percent of the insurance company respondents compensate their outside directors on an annual plus per-meeting fee basis. Only one percent uses the per-meeting only method of payment and one pays an annual fee only.

- Annual plus Per-Meeting Fee (93 percent of the respondents)

Although the average total yearly compensation for outside directors of insurance companies has increased 37 percent over the past five years from $10,990 to $15,050, the group still lags behind all but the smaller industrials (under $400 million). Insurers are significantly below the $18,090 yearly average for all respondents. The components of the total compensation include a $10,100 average annual fee and a $583 average per-meeting fee (Table 5A).

The upper quartile average, included in this section for comparative purposes, is up from last year (from $22,920 to $24,520), but it is considerably below the average for all respondents ($28,390) (Table 5B).

7. Committee Compensation

Ninety-three percent of the insurers compensate their outside directors additionally for serving on a committee. The most prevalent form of payment continues to be a per-meeting fee only, used by 58 percent. As with all respondents, insurers are increasingly paying an annual plus per-meeting fee for committee service. This year, 36 percent report using this method, up from 26 percent last year. Four percent pay an annual fee only.

Among the 58 percent that pay a per-meeting fee only, fees range from $380 per-meeting for the corporate ethics committee to $630 for the executive committee. The overall average is $90. The corporate ethics committee has the the lowest compensation among companies that pay an annual plus per-meeting fee -- $1,900. Members of the finance committee have the highest average pay, $8,370. The average of all respondents is $3,550. Committee chairmen are generally compensated at a higher rate than committee members.

8. Additional Compensation Information (Table 6)

Forty-three percent of the insurance company respondents raised board fees an average $2,500 during the past year. Although the percentage raising fees is up compared to last

year's 39 percent, the average increase is down from $2,750. Twenty-four percent project an average increase of $2,360 during the next year. Ninety-four percent believe that their outside directors are adequately compensated.

The highest paid insurance company director earned $22,100, exclusive of consulting fees, this past year. Although this is still below the $23,100 average for all respondents, the upper quartile average of $42,880 is substantially above the $39,270 upper quartile average for all respondents. For the third consecutive year this average is exceeded only by industrials with revenues over $3 billion (Table 6). Twenty-one percent of the insurance respondents have at least one director who also receives consulting fees.

As seen with all respondents, benefits are becoming an increasingly important part of compensation plans for outside directors of insurance companies. Ninety-three percent now cover travel expenses (up from 86 percent last year), 85 percent provide directors' liability insurance (up from 75 percent), and 57 percent have matching educational gifts programs (up from 50 percent). Seventy percent have plans that allow deferral of board fees until retirement and 20 percent have formal retirement plans.

Ninety-four percent of the insurers have procedures whereby the board annual reviews and establishes appropriate compensation for the chief executive officer as well as for other senior officers.

9. Board Practices and Policies (Table 7)

For the seventh consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents. Forty-one percent report that they hold at least one of these meetings away from their headquarters office or a major facility city. Six percent hold at least one meeting outside the country during the year.

An outside director of an insurance company devotes an estimated 116 hours annually to board-related business. While this is up somewhat from last year's 107 hours, it is still below the 125-hour average for all respondents. The upper quartile average for insurers is 193 hours -- almost on par with the 194 overall average (Table 7A). Insurers' board members' hourly rate continues to be below the overall average ($130 vs. $145).

With 46 percent of the insurance respondents reporting an outside director resignation during the past year and 54 percent expecting a board vacancy during the coming year

(a high for the study), identifying and selecting new outside directors is of major importance. Insurance respondents continue to use the traditional means of recommendations by the board chairman and board members, but the use of the formal nominating committee continues to grow -- reported by 59 percent up from 52 percent last year (Table 7B). Corporate experience remains the primary consideration in asking a prospective director to sit on the board (Table 7C).

Only 11 percent of the insurance company respondents had a prospective director decline an invitation to serve on the board (Table 7D). This is down from 21 percent last year and below the 16 percent average for all respondents. The time commitment involved continues to be the major reason for a prospect's declining an invitation.

Ninety-four percent of the insurers permit their chief executive officer to serve on outside public corporate boards. Seventy-two percent allow the COO and 78 percent allow other key executives to serve on outside boards.

Ninety-three percent of the insurance respondents have mandatory retirement policies. The average retirement age is 68 for inside directors and 70 for outside directors.

10. Issues (Table 8)

Financial results continue to be cited as the most significant issue facing insurance boards today. When asked to rank various issues in order of importance, 82 percent of insurers ranked it first, second or third. Other highly ranked issued include strategic planning and day-to-day operations (Table 8). More than a third (37 percent) of board meeting time is devoted to financial results.

TABLE 1 - PARTICIPATING COMPANIES

Fifty-four of America's major insurance companies participated in our Eleventh Annual Study.

Size (Sales)	No. of Insurers	%
Under $2 billion	15	27.8%
$2 billion and over	39	72.2%
TOTAL	54	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	15	27.8%
American Stock Exchange	1	1.8%
Over-the-Counter	9	16.7%
Mutual	7	13.0%
Private	21	38.9%
No Response	1	1.8%
TOTAL	54	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	3	9	12
$2 billion and over	3	14	17
Average	3	12	15

TABLE 3 - BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1979 Insurance Companies	1983 Insurance Companies	1983 All Companies Surveyed
Senior Executive (other companies)	91.2%	92.5%	89.4%
Retired or Previously Employed Corporate Officer	64.9%	53.7%	46.9%
Commercial Banker	56.1%	59.3%	33.2%
Attorney (provides legal services to the company)	35.1%	24.1%	30.2%
Academician	59.6%	70.4%	51.7%
Investment Banker	21.1%	18.5%	22.9%
Major Shareholder (not officer of the company)	19.3%	20.4%	30.4%
Attorney (does not provide legal services to the company)	38.6%	46.3%	34.3%
Former Government Official	31.6%	31.5%	30.2%
Female	50.9%	57.4%	43.4%
Ethnic Minority Representative	33.3%	29.6%	25.9%
Non-U.S. Citizen	15.8%	7.4%	15.4%
International Executive (American)	17.5%	11.0%	8.1%
"Professional" Director	N.A.	13.0%	18.2%
Retired Executive (other companies)	N.A.	82.5%	70.0%

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior Executives (other companies)	35.5%	25.0%
Academicians	32.3%	18.8%
Former Government Officials	16.1%	25.0%
Attorneys (do not provide legal services)	3.2%	18.8%

TABLE 4 - COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	1983 Insurance Companies	1983 All Companies Surveyed
Audit	98.1%	99.2%
Executive	92.6%	80.4%
Compensation	83.3%	84.6%
Finance	63.0%	34.3%
Nominating	53.7%	59.4%
Public Affairs	20.4%	12.6%
Corporate Ethics	14.8%	5.8%
Benefits	14.8%	34.5%

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	4	6
Compensation	0	4	4
Finance	2	5	7
Public Affairs	1	4	5
Nominating	0	4	4
Corporate Ethics	1	4	5
Benefits	1	2	3

4C. How many committee meetings were held during the past twelve months?

Committee	Average Number of Meetings
Audit	3
Executive	5
Compensation	3
Finance	8
Public Affairs	3
Nominating	2
Corporate Ethics	3
Benefits	3

TABLE 5 - COMPENSATION

5A. Annual plus Per-Meeting Fee (92.6% of the Respondents)

Annual Fee Amount	%
Under $3,000	4.0%
$3,000 - $6,999	16.0%
$7,000 - $10,999	48.0%
$11,000 - $13,999	10.0%
$14,000 and over	22.0%
OTAL	100.0%
Average Annual Fee	$10,100

PLUS

Amount Per Meeting	%
Under $250	6.0%
$250 - $449	18.0%
$450 - $599	30.0%
$600 - $799	28.0%
$800 and over	18.0%
TOTAL	100.0%
Average Per-Meeting Fee	$583

EQUALS

Total Annual Compensation	%
Under $7,000	6.0%
$7,000 - $10,999	22.0%
$11,000 - $13,999	24.0%
$14,000 - $16,999	20.0%
$17,000 - $24,999	22.0%
$25,000 and over	6.0%
TOTAL	100.0%
Average Total Annual Compensation	$15,050

5B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$15,050	$24,520
Banks and other Financial Institutions	$17,040	$25,930
Insurance Companies	$15,050	$24,520
Retailers	$19,120	$27,500
Industrials		
Under $200 million	$ 9,270	$13,510
$200 million - $399 million	$14,680	$21,280
$400 million - $599 million	$16,740	$28,940
$600 million - $999 million	$16,780	$24,260
$1 billion - $2.999 billion	$19,490	$26,810
$3 billion - $4.999 billion	$23,840	$33,030
$5 billion and over	$27,940	$33,510
Average	$18,090	$28,390

TABLE 6 - COMMITTEE COMPENSATION

How much did the highest paid director receive in 1983 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	16.7%
$11,000 - $16,999	24.1%
$17,000 - $24,999	20.4%
$25,000 - $39,999	24.1%
$40,000 and over	9.2%
Unspecified	5.5%
TOTAL	100.0%
Average	$22,100

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$22,100	$42,880
Banks and other Financial Institutions	$23,980	$37,460
Retailers	$23,050	$42,180
Industrials		
Under $200 million	$11,640	$18,910
$200 million - $399 million	$16,800	$22,420
$400 million - $599 million	$17,440	$26,580
$600 million - $999 million	$20,590	$31,100
$1 billion - $2.999 billion	$25,780	$38,220
$3 billion - $4.999 billion	$31,890	$43,170
$5 billion and over	$35,770	$54,250
Average	$23,100	$39,270

TABLE 7 - BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annual on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	9.3%
41 to 70	18.5%
71 to 130	35.2%
131 to 190	20.4%
191 to 150	7.4%
251 and over	3.7%
No Response	5.5%
TOTAL	100.0%
Average	116 hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	116	193
Banks and other Financial Institutions	109	195
Retailers	130	181
Industrials		
Under $200 million	78	124
$200 million - $399 million	115	177
$400 million - $599 million	94	163
$600 million - $999 million	124	189
$1 billion - $2.999 billion	150	203
$3 billion - $4.999 billion	138	193
$5 billion and over	167	236
Average	125	194

7B. How are outside directors located for the board?

	%
Recommended by board members	79.6%
Recommended by chairman	77.8%
Nominating committee	59.3%
Recommended by other corporate officers	42.6%
Referred by executive acquaintances	14.8%

7C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	87.0%
Specific Industry Experience	33.0%
Specific Functional Experience	33.0%
Prestige	14.8%

7D. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	11.1%
No	87.0%
No response	1.9%
TOTAL	100.0%

TABLE 8 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	57.4%	74.1%	81.5%
Strategic planning	14.8%	37.0%	66.6%
Day-to-day operations	7.4%	29.6%	42.6%
Managerial succession	5.6%	14.9%	22.3%
Financing/capitalization	1.9%	7.5%	22.3%
Mergers/acquisitions	---	3.7%	7.4%
Government relations	---	---	9.3%
Shareholder relations	3.0%	4.9%	4.9%
Corporate ethics	---	1.9%	3.8%

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Board of Directors
Eleventh Annual Study
Banks & Other Financial Institutions
Supplement 1984

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KORN/FERRY INTERNATIONAL
ELEVENTH ANNUAL BOARD OF DIRECTORS STUDY OF
BANKS AND OTHER FINANCIAL INSTITUTIONS

Introduction

For the past 11 years, Korn/Ferry International has surveyed the board practices and policies of America's largest industrial and service corporations. This year, over 600 companies responded, and of these over 70 are financial institutions.

To enable directors of banks and other financial institutions to evaluate their board practices compared with others in their industry, we once again isolated the responses of these institutions in this special supplement to our Eleventh Annual Study.

As a general rule, the boards of financial companies have traditionally had greater demands placed on them than their industrial counterparts because of stringent government regulations, as well as high public visibility and accountability. As a result, certain trends specific to financial institutions have emerged that distinguish them from companies in other industries:

- Banks and other financial institutions continue to have the largest boards, averaging 19. They also continue to have the highest number of outside directors, with an average of four inside and 15 outside directors. Sixty-four percent of banks and other financial institutions prefer at least a three-quarter majority of outside directors on their boards.
- Banks and other financial institutions also have the highest number of regular board meetings—nine—with the upper quartile of this group averaging 195 hours per year or over three 60-hour weeks spent on board duties.
- Banks and other financial institutions added more new directors in 1983 than any other group. In appointing these new directors, nearly 70 percent report using a nominating committee.
- Financial companies indicate a strong preference for outside directors with extensive business experience. In fact, senior executives from other companies are represented on 95 percent of financial institutions' boards, with an average of ten on each board, double the average of all those surveyed. Eighty percent say corporate experience is the primary consideration in asking a prospective director to sit on their boards.

- Financial institutions once again lead the corporate community in appointing women and ethnic minorities to their boards. Seventy-five percent now have women on their boards while 45 percent have minorities.
- Although financial institutions have historically paid their directors less than the overall average, they have been closing the gap over the last few years. The highest average per-hour compensation among banks and other financial institutions is $156 versus $144 for all respondents.

The above highlights some of the important trends reflected in the answers of banks and other financial institutions that participated in our study. A more detailed discussion of trends follows in the Summary of Findings.

Lester B. Korn

Lester B. Korn

Richard M. Ferry

Richard M. Ferry

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to bank and other financial institution respondents (Table 1). Where appropriate, key comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

Banks and other financial institutions have an average of 19 directors on their board—six more than the average of all respondents and higher than any other group responding to this study. The boards of the largest banks ($2 billion and over) are even larger, averaging 20.

2. Inside Directors vs. Outside Directors (Table 2)

With an average of four inside and 15 outside directors, banks and other financial institutions have the strongest preference for outside director dominance. This year, 93 percent state that they prefer a majority of their board be composed of outside directors—significantly more than the 81 percent stating this preference among all respondents. Moreover, 64 percent of all financial institutions prefer that at least 75 percent of their board be outside directors, compared with only 37 percent for all respondents.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Banks and other financial institutions again report the highest percentage of chairmen who are also chief executive officers and have among the lowest percentage of chief executive officers who are also the chief operating officers. Eighty-eight percent state that their chairman is the CEO (compared to 77 percent for all respondents) while only 36 percent report that their CEO is also their COO (compared to 43 percent) for all respondents.

4. Board Composition (Table 4)

With their strong preference for outside representation, banks and other financial institutions rely heavily on senior executives of other companies and retired executives of other companies as their primary source of outside directors. Senior executives of other companies are on 95 percent of financial institutions' boards and retired executives of other companies are on 70 percent. Furthermore, these boards have an average of ten senior executives of other companies each (double the overall average of five). These boards also have an average of three retired executives of other companies each, compared with four or less in all other categories.

Eighty percent of financial respondents cite corporate experience as the primary consideration in asking a prospective director to sit on their boards.

**This year, 603 corporations responded to our Annual Study. Industrial and service corporations account for 73 percent of the total, of which 215 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 12 percent, insurance companies for nine percent and retailers for six percent.*

The boards of banks and other financial institutions continue to have the highest percentage of women. Seventy-five percent now have women on their boards. This is not only up from 66 percent last year, but also is 74 percent above the average for all respondents (43 percent) (Table 4A). These women board members are drawn primarily from the ranks of senior executives of other companies and from academia, both categories cited by 20 percent of the financial respondents. Banks and other financial institutions are also among the leaders in ethnic minority representation. Minorities are on 45 percent of their boards, well above the 26 percent overall average. Only industrial companies with revenues over $3 billion register higher percentages of minorities on their boards. The financial companies draw most of their minority members from the ranks of senior executives of other companies (Table 4B).

Other groups represented significantly on financial boards include academicians (on 63 percent), retired or previously employed corporate officers (on 51 percent), attorneys who do not provide legal services (on 38 percent) and former government officials (on 37 percent). Finanical boards have, however, the lowest percentage of investment bankers—only seven percent compared to 23 percent for all respondents.

5. Committees (Table 5)

This year, every one of the 73 financial respondents reports having an audit committee. The other committees that continue to be the most prevalent are the executive and compensation committees, each cited by 84 percent. The nominating committee continues to grow in use and is now reported by 62 percent—up from 48 percent five years ago. Along with the larger industrials ($3 billion and over), financial companies lead in the use of the public affairs committee. Twenty-one percent now report having this committee compared to 13 percent for all respondents and up from 17 percent five years ago (Table 5A).

The executive committee is the largest with an average of eight members. The corporate ethics and benefits committees are the smallest with four members. Once again, the audit, compensation and benefits committees each are composed entirely of outside directors while the executive committee has the most inside directors—three (Table 5B).

The executive and finance committees meet most frequently, each averaging six meetings per year. The public affairs, nominating and corporate ethics have the fewest meetings, each averaging just two meetings per year (Table 5C). Fifty-eight percent of the financial respondents believe the amount of time directors devote to committees is increasing. None believe the amount of time is decreasing while the rest believe it remains the same.

6. Compensation (Table 6)

The annual plus per-meeting fee method of compensation is by far the most popular system of paying outside directors this year. Ninety-three percent of the bank and other financial institution respondents report using this method (up from 84 percent last year and from 78 percent two years ago), more than any group of participants. The annual-fee-only and per-meeting-fee-only methods of compensation were each reported by three percent of the financial respondents.

—Annual Plus Per-Meeting Fee (93 percent of the financial respondents)

The average total annual compensation for outside directors of banks and other financial institutions using this method of payment is $17,040. This is an increase of 11 percent over last year's average of $15,310 and represents a 57 percent increase over the past five years (from $10,820). While financial companies still lag behind other respondents to the study in total compensation, the gap is closing. Their average compensation is only six percent below the $18,090 overall average, much smaller than the 11 percent gap noted last year.

The components of this method consist of an average annual fee of $10,700 and an average per-meeting fee of $833.

This year, the average for financial companies in the upper quartile is $25,930 compared with $28,390 for all respondents in this group.

—Annual Fee Only (three percent of the respondents)

The average annual fee for financial companies went up from $14,600 last year to $17,000 this year. This is somewhat higher than the $16,100 overall average.

—Per-Meeting Fee Only (three percent of the respondents)

The per-meeting fee paid to outside directors of financial companies using this method of compensation averages $833.

7. Committee Compensation

Ninety-two percent of banks and other financial institutions compensate their outside directors for committee service. Although most (58 percent) still use the per-meeting-fee-only method of compensation, financial companies are increasingly paying an annual plus per-meeting fee—a trend noted among all respondents. This year, 36 percent of financial companies are paying in this manner, more than double last year's 14 percent. Only six percent pay only an annual fee for committee service.

Among the 58 percent that pay only a per-meeting fee, fees range from $390 per meeting for the public affairs committee to $500 for the corporate ethics committee. The average for all committees is $440—24 percent

below the $580 average for all respondents. For the 36 percent that use the annual plus per-meeting fee method, the average total compensation for all committees is $2,720 per year.

8. Additional Compensation (Table 7)

Although the average compensation for outside directors of the responding banks and other financial companies is below the average for all respondents, the highest paid of these directors averages $23,980—four percent more than the overall average of $23,100. This $23,980 average is a significant 16 percent increase over last year's $20,700. The upper quartile average among financial respondents is $37,460 (vs. $39,270 for all respondents) (Table 7). Thirty-three percent also pay at least one outside director additional consulting fees.

More than half (52 percent) of the financial respondents increased compensation an average $3,000 for their board members during 1983. Although this is more than the increase for all respondents ($2,850), it is well below the $4,410 average increase noted in the last year's study. Eighteen percent predict that they will raise board fees during 1984, projecting an average increase of $3,290. Ninety-three percent of the financial company respondents believe that their outside directors are adequately compensated.

Ninety-six percent of the banks and other financial institutions have a procedure whereby directors annually review and establish appropriate compensation for their chief executive officer—more than any other group of respondents. Ninety-two percent have such a procedure for other senior officers. Thirty-four percent report that their chairman is primarily responsible for establishing board compensation.

Along with the largest industrials, banks and other financial institutions lead in offering outside directors the option of deferring board fees until retirement. In 1983, 73 percent offered this option, up from 63 percent in 1982 and well above the 60 percent for all respondents. Another ten percent indicate that they are planning to institute this option. Other benefits commonly offered include directors' liability insurance (reported by 92 percent), travel expense reimbursement (92 percent), matching educational gifts program (43 percent) and accident insurance (40 percent). Fifteen percent have retirement plans for their outside directors.

9. Board Practices and Policies (Table 8)

Banks and other financial institutions had an average of nine regular board meetings last year, one more than the average of eight for all respondents. Thirty-eight percent held one or two of these meetings outside of their headquarters office or a major facility city. But of these, only six percent were held outside the United States.

An outside director of the financial respondents devoted an average of 109 hours to board-related business last year—16 hours less than the

average for all respondents. However, the upper quartile average for financial companies is 195 hours per year—one more than the upper quartile average for all respondents (Table 8A). In 1983, the hourly rate for directors of financial companies exceeded the hourly rate for all respondents—$156 per hour vs. $144 per hour. The $156 hourly rate represents a 16 percent increase over last year's rate of $134.

This year, 44 percent of the banks and other financial institutions reported an outside director resigning during the past year—primarily due to retirement. With 60 percent adding new outside directors (more than any other responding group) and 48 percent expecting a board vacancy during the coming year, it is clear that locating new outside directors is of major importance to financial companies. In identifying and selecting new directors, they continue to rely predominantly on recommendations by their chairmen and by other board members. They are, however, among the leaders in using the formal nominating committee. Sixty-seven percent report the use of this committee compared with 53 percent for all respondents (Table 8B). In asking a prospective director to sit on their board, 80 percent of the financial companies view corporate experience as the primary consideration. There is a decided preference for fully-employed outside directors (82 percent cited this preference compared to 56 percent for all respondents).

Eighteen percent of the banks and other financial institutions report that at least one prospective director declined an invitation to serve on their boards. The time commitment involved was the primary reason given for declining (Table 8C).

Ninety-six percent of the financial respondents permit their chief executive officer to serve on outside public corporate boards. Seventy percent permit the chief operating officer and 69 percent allow other key executives to do so.

Eighty-six percent have a mandatory retirement age—down from 95 percent last year. The average retirement age is 68 for inside directors and 70 for outside directors.

10. Issues (Table 9)

Financial results and strategic planning continue to be the two most important issues facing the boards of banks and other financial institutions. When asked to rank various issues, 81 percent rank financial results either first, second or third and 66 percent ranked strategic planning among the top three. They are followed by financing/capitalization (36 percent) and day-to-day operations (30 percent) (Table 9). When asked to rank the same issues five years from now, financial results and strategic planning are again the top two. The greatest percentage of board meeting time is devoted to financial results (26 percent), followed by strategic planning (16 percent) and day-to-day operations (15 percent).

TABLE 1—PARTICIPATING COMPANIES

Seventy-three of America's major banks and financial institutions participated in our Eleventh Annual Study.

Size (Assets)	Number of Financial Institutions	%
Under $2 billion	7	9.6%
$2 billion and over	66	90.4%
TOTAL	73	100.0%

Stock Exchange	Number of Financial Institutions	%
New York Stock Exchange	34	46.6%
American Stock Exchange	1	1.4%
Over-the-counter	27	37.0%
Other	11	15.0%
TOTAL	73	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Financial Institutions	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	2	11	13
$2 billion and over	4	16	20
Average	4	15	19

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	87.7%	35.6%
No	11.0%	61.6%
No response	1.3%	2.8%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1979 Financial Institutions	1983 Financial Institutions	1983 All Companies Surveyed
Senior executive (other companies)	93.3%	94.5%	89.4%
Retired or previously employed corporate officer	51.7%	50.7%	46.9%
Commercial banker	13.3%	20.5%	33.2%
Attorney (provides legal services to the company)	41.7%	32.9%	30.2%
Academician	60.0%	63.0%	51.7%
Investment banker	10.0%	6.8%	22.9%
Major shareholder (not officer of the company)	26.7%	23.3%	30.4%
Attorney (does not provide legal services to the company)	31.7%	38.4%	34.3%
Former government official	31.7%	37.0%	30.2%
Female	70.0%	75.3%	43.4%
Ethnic minority member	31.7%	45.2%	25.9%
Non-U.S. citizen	25.0%	19.2%	15.4%
International executive (American)	16.7%	11.0%	8.1%
"Professional" director	N.A.	23.3%	18.2%
Retired executive (other companies)	N.A.	69.9%	70.0%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	20.0%	24.2%
Senior executives (other companies)	20.0%	48.5%
Former government officials	9.1%	9.1%
Attorneys (do not provide legal services)	9.1%	9.1%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	100.0%	99.2%
Executive	83.6%	80.4%
Compensation	83.6%	84.6%
Finance	24.7%	34.3%
Nominating	61.6%	59.4%
Public affairs	20.5%	12.6%
Corporate ethics	5.5%	5.8%
Benefits	32.9%	34.5%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Executive	3	5	8
Compensation	0	5	5
Finance	2	4	6
Public affairs	1	5	6
Nominating	1	5	6
Corporate ethics	1	3	4
Benefits	0	4	4

5C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number Of Meetings	1983 Average Number Of Meetings
Audit	4	5
Executive	7	6
Compensation	4	4
Finance	4	6
Public affairs	3	2
Nominating	2	2
Corporate ethics	4	2
Benefits	3	3

TABLE 6—COMPENSATION

Annual Plus Per-Meeting Fee (93.2 Percent of Respondents)

Annual Fee Amount	%
Under $5,000	7.4%
$5,000-$6,999	17.6%
$7,000-$10,999	26.5%
$11,000-$13,999	20.6%
$14,000 and over	26.5%
Unspecified	1.4%
TOTAL	100.0%
Average Annual Fee	$10,700

PLUS

Amount Per Meeting	%
Under $250	1.5%
$250-$449	26.5%
$450-$599	33.8%
$600-$799	23.5%
$800 and over	11.8%
Unspecified	2.9%
TOTAL	100.0%
Average Per-Meeting Fee	$833

EQUALS

Total Annual Compensation	%
Under $7,000	1.5%
$7,000-$10,999	17.6%
$11,000-$13,999	16.2%
$14,000-$16,999	16.2%
$17,000-$19,999	17.6%
$20,000-$24,999	20.6%
$25,000 and over	10.3%
TOTAL	100.0%
Average Total Annual Compensation	$17,040

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$17,040	$25,930
Insurance companies	$15,050	$24,520
Retailers	$19,120	$27,500
Industrials		
Under $200 million	$ 9,270	$13,510
$200 million-$399 million	$14,680	$21,280
$400 million-$599 million	$16,740	$28,940
$600 million-$999 million	$16,780	$24,260
$1 billion-$2.999 billion	$19,490	$26,810
$3 billion-$4.999 billion	$23,840	$33,030
$5 billion and over	$27,940	$36,510
Average	$18,090	$28,390

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1983 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	6.8%
$11,000-$16,999	17.8%
$17,000-$24,999	30.2%
$25,000-$29,999	19.2%
$30,000-$39,999	17.8%
$40,000 and over	4.1%
Unspecified	4.1%
TOTAL	100.0%
Average	$23,980

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$23,980	$37,460
Insurance companies	$22,100	$42,880
Retailers	$23,050	$42,180
Industrials		
Under $200 million	$11,640	$18,910
$200 million-$399 million	$16,800	$22,420
$400 million-$599 million	$17,440	$26,580
$600 million-$999 million	$20,590	$31,100
$1 billion-$2.999 billion	$25,780	$38,220
$3 billion-$4.999 billion	$31,890	$43,170
$5 billion and over	$35,770	$54,250
Average	$23,100	$39,270

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	6.7%
41 to 70	15.1%
71 to 100	32.9%
101 to 160	20.6%
161 and over	13.7%
No response	11.0%
TOTAL	100.0%
Average	109 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Banks and other financial institutions	109	195
Insurance companies	116	193
Retailers	130	181
Industrials		
Under $200 million	78	124
$200 million-$399 million	115	177
$400 million-$599 million	94	163
$600 million-$999 million	124	189
$1 billion-$2.999 billion	150	203
$3 billion-$4.999 billion	138	193
$5 billion and over	167	236
Average	125	194

8B. How are outside directors located for the board?

	%
Recommended by chairman	84.9%
Recommended by board members	80.8%
Nominating committee	67.1%
Recommended by other corporate officers	52.1%
Referred by executive acquaintances	5.5%
Executive search	4.1%

8C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	17.8%
No	82.2%
TOTAL	100.0%

If yes, what is the predominant reason?

	%
Time commitment	61.5%
Conflict of interest	53.8%
On too many boards	7.7%

TABLE 3—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	52.1%	68.5%	80.8%
Strategic planning	16.4%	46.5%	65.7%
Financing/Capitalization	4.1%	15.1%	35.6%
Day-to-day operations	9.6%	21.9%	30.1%
Mergers/Acquisitions	1.4%	6.9%	17.9%
Managerial succession	4.1%	9.6%	16.4%
Multinational issues	–	5.5%	9.6%
Public relations	–	1.4%	2.8%
Government relations	–	1.4%	2.8%
Corporate ethics	–	1.4%	1.4%
Board compensation	–	–	1.4%

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